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WILKES, ARTIS, HEDRICK & LANE

CHARTERED

ATTORNEYS AT LAW

SUITE 1100

1666 K STREET, N. W.

WASHINGTON, D. C. 20006-2897

(202) 457-7800

CABLE ADDRESS: WILAN
FAX: 202-457-7814

ANNAPOLIS, MARYLAND
BETHESDA, MARYLAND
FAIRFAX, VIRGINIA
GREENBELT, MARYLAND
WALDORF, MARYLAND

RAMSEY L. WOODWORTH
202-457-7874

May 14, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: Federal-State Joint Service Board on Universal Service
CC Docket No. 96-45

Report of Permissible Ex Parte Meeting

Dear Ms. Salas:

On behalf of Integrated Systems & Internet Solutions, Inc., this is to report that the undersigned and the following representatives of Integrated Systems & Internet Solutions, Inc. met with Irene Flannery of the Common Carrier Bureau today, April 14, 1998, concerning its pending Objection to Application and Request for Expedited Declaratory Ruling, filed April 3, 1998:

Teri Spencer, President
Jeffrey Hustad, Chief Technical Officer

In addition, Debra Kriete, Esquire, General Counsel of the Schools and Libraries Corporation, attended the meeting. The meeting reviewed the issues raised in the Objection to Application and Request for Expedited Declaratory Ruling and responsive pleadings, as summarized in the enclosed summary.

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Should there be any questions in connection with this report, please contact the undersigned.

Respectfully submitted,

INTEGRATED SYSTEMS & INTERNET SOLUTIONS, INC.

By:

Ramsey L. Woodworth
Rudolph J. Geist
WILKES, ARTIS, HEDRICK & LANE, Chartered
1666 K Street, N.W., Suite 1100
Washington, DC 20006
(202) 457-7896

Its Attorneys

cc: Irene Flannery, Esq.
Debra M. Kriete, Esq.
William K. Coulter, Esq.
Jeffrey S. Linder, Esq.

SUMMARY OF ISIS 2000 OBJECTION AND REQUEST FOR DECLARATORY RULING

1. <u>A process and contract award heavily favoring the higher pre-discount price violates basic FCC competitive bidding rules and policies</u>.

   - By capping the amount to be paid by the Department of Education and awarding a bidding preference to the bidder obtaining ("leveraging") the most USF funding, the Tennessee bidding process sought the <u>highest</u> pre-discount price. As a result, a contract for a $23 million higher pre-discount price ($74.3 million vs. $51.1 million) for substantially similar services was favored. This approach, not based on the objective evaluation of the lowest pre-discount price but which, to the contrary, favored the higher pre-discount price, is a blatant violation of the competitive bidding rules, the purpose of which is to obtain the most cost-effective overall <u>pre-discount</u> price. Neither the Department nor ENA has even responded to this issue.

   - This leverage results largely from a "wash transaction" in which the Department sells existing network equipment (estimated present salvage value $295,000) to ENA for $7.5 million and then purchases use of the equipment from ENA for $7.95 million. The transaction has no economic purpose except to inflate the calculated amount paid by the Department by $7.5 million for USF funding purposes, producing excess USF funding of approximately $16 million. The Department's actual contribution for services during USF Program fiscal year 1998 is effectively reduced to zero, while the USF fund pays 100%, notwithstanding the Department's established discount limit of 66%.

2. <u>The arrangement structured by ENA does not constitute funding-eligible "Internet access services" as that term is commonly understood</u>.

   - The argument that funding is required because there is no express rule against the scheme created by ENA ignores the central fact that the Commission is not obligated to define by rule every conceivable scheme that will be deemed by the Commission to constitute an abuse of the Commission's rules.

- Terminology describing eligible services must be interpreted by generally accepted definition concepts, rather than be allowed to mask otherwise unallowable transactions.

3. <u>The ENA contract is nothing more than a guise to fund the construction of a privately owned commercial wide-area network including a substantial amount of USF discount-ineligible equipment and services</u>.

    - Not only does the ENA contract involve the funding of equipment far beyond "internal connections" that would be eligible for funding, but it more basically would have the USF fund provide all of the start-up capital for the commercial enterprise (with an estimated value of between $60 and $160 million) without obtaining any benefit to the public in return. ENA's own Business Prospectus confirms its intent to use the private network funded entirely by public funds to sell commercial services to other customers.

    - The ENA contract would have federal USF funds pay for, on ENA's behalf, the capitalization costs of multiple ineligible point-of-presence (POP) facilities and statewide telecommunications connections, ineligible caching servers and teacher training for ENA's private commercial use.

May 14, 1998